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AZ CORP COMMISSION
DOCUMENT CONTROL

April 23, 2007

Via FedExp
Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007-2927
Attn: Ms. Rachelle DeWitt

Re: IElement Telephone of Arizona, Inc. – Application for CPCN
Docket #T-20481A-06-0617

Dear Ms. DeWitt:

Pursuant to the Commission's request of April 19, enclosed is an original and 13 copies of IElement Corporation's February 14, 2007 SEC Form 10-QSB. Also is a CD containing a PDF copy of the Form 10-QSB. This information is submitted in connection with Candrea Allen's email request of April 18, 2007.

Thank you for your assistance in this matter.

Sincerely,

B. G

Bettye Gadison
Regulatory Compliance Assistant

BJG/abm
Enclosures

Arizona Corporation Commission
DOCKETED
MAY -2 2007
DOCKETED BY nr

1425 Leimert Boulevard, Suite 404
Oakland, CA 94602
Phone: 510 285-8010
Fax: 510 868-8418

1725 I Street, NW, Suite 300
Washington, DC 20006
Phone: 202 250-3413
Fax: 202 517-9175
www.lokt.net

Docket #T-20481A-06-0617

10QSB 1 ielement_10qsb-123106.htm IELEMENT 10-QSB 12-31-06

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

(Mark One)

[X] Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: December 31, 2006

[ ] Transition report under Section 13 or 15(d) of the Exchange Act of 1934

For the transition period from __________ to __________

Commission File No. 000-29331

IELEMENT CORPORATION

(Exact Name of Small Business Issuer as Specified in its Charter)

Nevada	76-0270295
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

17194 Preston Rd., Suite 102 PMB 341, Dallas, TX 75248

(Address of Principal Executive Offices)

(214) 254-3425

(Issuer's Telephone Number, Including Area Code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes [ ] No [X]

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.

Yes [ ] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

There were 228,262,500 issued and outstanding shares of the registrant's common stock, $.001 par value per share, on February 14, 2007.

Transitional Small Business Disclosure Format (check one):

Yes [ ] No [X]

IELEMENT CORPORATION
FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2006

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THIS REPORT CONTAINS FORWARD LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. SUCH STATEMENTS ARE BASED ON CURRENT EXPECTATIONS, ASSUMPTIONS, ESTIMATES AND PROJECTIONS ABOUT THE COMPANY AND ITS INDUSTRY. FORWARD LOOKING STATEMENTS ARE SUBJECT TO KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE ACTUAL RESULTS, LEVELS OF ACTIVITY, PERFORMANCE, ACHIEVEMENTS AND PROSPECTS TO BE MATERIALLY DIFFERENT FROM THOSE EXPRESSED OR IMPLIED BY SUCH FORWARD LOOKING STATEMENTS. THE COMPANY UNDERTAKES NO OBLIGATION TO UPDATE PUBLICLY ANY FORWARD LOOKING STATEMENTS FOR ANY REASON EVEN IF NEW INFORMATION BECOMES AVAILABLE OR OTHER EVENTS OCCUR IN THE FUTURE.

Unless otherwise indicated or the context otherwise requires, all references to "IElement," the "Company," "we," "us" or "our" and similar terms refer to IElement Corporation and its subsidiaries.

IELEMENT CORPORATION AND SUBSIDIARY
(Formerly MailKey Corporation)
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE MONTHS ENDED DECEMBER 31, 2006 AND 2005
AND THE NINE MONTHS ENDED DECEMBER 31, 2006 AND 2005

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IELEMENT CORPORATION AND SUBSIDIARY
(Formerly MailKey Corporation)
CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)
December 31, 2006

ASSETS

		December 31, 2006 (Unaudited)
CURRENT ASSETS:		
Cash and cash equivalents	$	3,900
Accounts receivable, net		471,391
Other current assets		605
Total current assets		475,896
Notes receivable		900,000
Fixed assets, net of depreciation		549,008
OTHER ASSETS:		
Deposits		279,145
Total other assets		279,145
TOTAL ASSETS	$	2,204,049

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

CURRENT LIABILITIES:		
Current portion - notes payable	$	279,698
Accounts payable and accrued expenses		1,031,238
Customer deposits		102,616
Receivable financing payable		330,496
Commissions payable		9,639
Deferred revenue		544,419
Total current liabilities		2,298,106
LONG-TERM LIABILITIES:		
Notes payable, net of current portion		418,743
Total long-term liabilities		418,743

Total Liabilities	2,716,849
STOCKHOLDERS' EQUITY (DEFICIT)	
Preferred stock, $.001 Par Value, 200,000,000 shares authorized;	
Zero shares issued and outstanding	-
Common stock, $.001 Par Value, 2,000,000,000 shares authorized;	
224,025,000 shares issued and outstanding	224,025
Additional paid-in capital	3,374,432
Additional paid-in capital - warrants	177,757
Unearned compensation expense	(12,200)
Accumulated deficit	(4,276,814)
Total Stockholders' Equity (Deficit)	(512,800)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 2,204,049

The accompanying notes are an integral part of these condensed consolidated financial statements.

IELEMENT CORPORATION AND SUBSIDIARY
(Formerly MailKey Corporation)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
FOR THE THREE MONTHS ENDED DECEMBER 31, 2006 AND 2005 AND
THE NINE MONTHS ENDED DECEMBER 31, 2006 AND 2005

	Three Months Ended		Nine Months Ended	
	December 31, 2006 (Unaudited)	December 31, 2005 (Restated) (Unaudited)	December 31, 2006 (Unaudited)	December 31, 2005 (Restated) (Unaudited)
OPERATING REVENUE	$ 881,466	$ 1,119,772	$ 2,841,873	$ 3,487,000
OPERATING EXPENSES				
Cost of Sales (excluding depreciation of $50,916 and $46,856 for the three months ended December 31, 2006 and 2005 and $150,892 and $139,351 for the nine months ended December 31, 2006 and 2005, respectively)	562,196	689,185	1,886,563	2,141,575
General and administrative	667,412	580,397	2,301,657	1,598,893
Selling expenses	127,435	82,307	225,963	314,844
Depreciation	75,994	69,934	225,212	207,986
Interest expense	6,284	-	12,147	4,951
Receivable factoring fees	19,926	26,211	63,736	83,037
Total Operating Expenses	1,459,247	1,448,034	4,715,278	4,351,286
NET (LOSS) BEFORE PROVISION FOR INCOME TAXES	(577,781)	(328,262)	(1,873,405)	(864,286)
PROVISION FOR INCOME TAXES	-	-	-	-
NET (LOSS) APPLICABLE TO COMMON SHARES	$ (577,781)	$ (328,262)	$ (1,873,405)	$ (864,286)
NET (LOSS) PER BASIC AND AND DILUTED SHARES	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	183,888,702	96,477,065	167,442,590	94,817,400

The accompanying notes are an integral part of these condensed consolidated financial statements.

IELEMENT CORPORATION AND SUBSIDIARY
(Formerly MailKey Corporation)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
FOR THE NINE MONTHS ENDED DECEMBER 31, 2006 AND 2005

	Nine Months Ended	
	December 31, 2006 (Unaudited)	December 31, 2005 (Restated) (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss)	$ (1,873,405)	$ (864,286)
Adjustments to reconcile net loss to net cash (used in) operating activities:		
Depreciation	225,212	207,986
Bad debt expense	67,499	67,943
Stock issued for services	726,229	33,498
Stock based employee compensation	178,734	236,750
Changes in assets and liabilities		
(Increase) in accounts receivable	(36,293)	(21,946)
(Increase) decrease in other current assets	(496)	621
(Increase) decrease in deposits	(160,658)	2,172
Increase (decrease) in accounts payable and accrued expenses	(124,754)	190,568
Increase in accrued interest	10,846	4,872
(Decrease) in customer deposits	(33,604)	(24,991)
(Decrease) in receivable financing payable	(68,755)	(77,776)
(Decrease) in commissions payable	(4,725)	(8,911)
(Decrease) in deferred revenue	(132,340)	(102,038)
Net cash (used in) operating activities	(1,226,510)	(355,538)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of fixed assets	(65,048)	(52,368)
Net cash (used in) investing activities	(65,048)	(52,368)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of notes payable	$ (19,000)	$ (46,349)
Proceeds from notes payable	595,008	-
Cash received for common stock to be issued	-	1,535,625
Fund raising fees charged to paid in capital	-	(216,562)
Net cash provided by financing activities	576,008	1,272,714

The accompanying notes are an integral part of these condensed consolidated financial statements

IELEMENT CORPORATION AND SUBSIDIARY
(Formerly MailKey Corporation)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (CONTINUED)
FOR THE NINE MONTHS ENDED DECEMBER 31, 2006 AND 2005

	Nine Months Ended	
	December 31, 2006 (Unaudited)	December 31, 2005 (Restated) (Unaudited)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(715,550)	864,808
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	719,450	340,321
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 3,900	$ 1,205,129
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
CASH PAID DURING THE PERIOD FOR:		
Interest expense	$ 800	$ 114
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:		
Accounts payable converted to equity	$ 49,948	$ 85,194
Accounts payable converted to notes payable	$ -	$ 177,884
Accounts payable converted to liability for stock to be issued	$ -	$ 251,500
Notes payable converted to liability for stock to be issued	$ -	$ 239,000
Notes payable converted to equity	$ 523,097	$ -
Stock issued for services in current period	$ 726,229	$ 33,498
Stock to be issued for services	$ -	$ 236,750

Stock issued for note receivable	$ 900,000	$ -
Stock based compensation	$ 178,734	$ 236,750

The accompanying notes are an integral part of these condensed consolidated financial statements

IELEMENT CORPORATION AND SUBSIDIARY
(Formerly MailKey Corporation)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE MONTHS ENDED DECEMBER 31, 2006 AND 2005
AND THE NINE MONTHS ENDED DECEMBER 31, 2006 AND 2005

NOTE 1- ORGANIZATION AND BASIS OF PRESENTATION

The unaudited interim condensed consolidated financial statements included herein have been prepared by IElement Corporation and Subsidiary (the "Company") without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted as allowed by such rules and regulations, and the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the March 31, 2006 audited financial statements and the accompanying notes thereto. While management believes the procedures followed in preparing these condensed financial statements are reasonable, the accuracy of the amounts are in some respects dependent upon the facts that will exist, and procedures that will be accomplished by the Company later in the year.

The management of the Company believes that the accompanying unaudited condensed consolidated financial statements contain all adjustments (including normal recurring adjustments) necessary to present fairly the operations and cash flows for the periods presented.

MK Secure Solutions Ltd. was established as a messaging security and Management company. On March 25, 2004, pursuant to an Agreement and Plan of Merger, Global Diversified Acquisition Corp. ("GDAC"), acquired all of the outstanding capital stock of MK Secure Solutions Ltd ("MKSS"), a holding company incorporated on March 11, 2003, under the laws of the British Virgin Islands. The transaction was effected by the issuance of shares such that the former MKSS shareholders owned approximately 90% of the outstanding MailKey stock after the transaction. GDAC then changed its name to MailKey Corporation ("MailKey").

The Company's Chairman and Chief Executive Officer resigned in September 2004 and the Company's Chief Financial Officer and member of the Board resigned in November 2004. Both positions were filled by the Company's founder and deputy chairman.

In the first quarter of 2005 the Company was unable to continue funding the development of its messaging security solutions, and the rights were transferred to the development team in return for the cancellation of most of the liabilities which the Company owed to them. The Company retains an interest of 20% in the messaging security solutions; however to date there has been no commercialization of the solutions. In the first quarter 2005 the Company sold its insolvent British Virgin Islands subsidiary, MK Secure Solutions Limited, for $1 to a UK based accounting firm, SS Khehar & Company. SS Khehar & Company has agreed to deal with the winding up of the former subsidiary for a fee of $1,800.

On November 9, 2004, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") by and among the MailKey Corporation, MailKey Acquisition Corp., a Delaware corporation and our wholly-owned subsidiary ("Merger Sub"), Inc., a Nevada Corporation, IElement, Inc. ("IElement") and Ivan Zweig, pursuant to which the Company agreed to acquire all of the issued and outstanding shares of capital stock of IElement. This transaction closed in January 2005. At the closing of the Merger, Merger Sub was merged into IElement, at which time the separate corporate existence of Merger Sub ceased and IElement now continues as the surviving company. The Share Exchange has been accounted for as a reverse merger under the purchase method of accounting. Accordingly, IElement will be treated as the continuing entity for accounting purposes and the historical financial statements presented will be those of IElement.

Under the terms of the Merger Agreement, MailKey issued its common stock, $.001 par value per share, in exchange for all of the issued and outstanding shares of capital stock of IElement. The exchange ratio setting forth the number of shares of MailKey common stock issued for each issued and outstanding share of capital stock of IElement was 3.52 shares of MailKey common stock for each issued and outstanding share of capital stock of IElement.

IElement, incorporated in Nevada on December 30, 2002, is a facilities-based nationwide communications service provider that provides state-of-the-art telecommunications services to small and medium sized businesses ("SMBs"). IElement provides broadband data, voice and wireless services by offering integrated T-1 lines as well as Layer 2 Private Network solutions that provide SMBs with dedicated Internet access services, customizable business solutions for voice, data, wireless and Internet, and secure communications channels between the SMB offices, partners, vendors, customers and employees without the use of a firewall or encryption devices. IElement has a network presence in 18 major markets in the United States, including facilities in Los Angeles, Dallas and Chicago. The Company started business in 2003.

In connection with the closing of the merger, MailKey entered into a letter of intent with Ivan Zweig and Kramerica Capital

Corporation ("Kramerica"), a corporation wholly-owned by Mr. Zweig, which stipulates that MailKey and IElement enter into a four year employment agreement with Kramerica and Mr. Zweig pursuant to which Mr. Zweig will serve as the Chief Executive Officer of MailKey and IElement. The letter of intent provides that Mr. Zweig will receive an annual base salary of $300,000. In addition to his base salary, Mr. Zweig will be entitled to annual performance bonuses with targets ranging from $1,000,000 to $3,000,000 during the second, third and fourth years provided IElement achieves certain performance goals. If Mr. Zweig is terminated without cause, MailKey is obligated to pay the remaining salary owed to Mr. Zweig for the complete term of the employment agreement, to pay off all notes owed to Mr. Zweig or Kramerica, all outstanding options shall become fully vested, MailKey shall pay all earned performance bonuses and all accrued vacation. If Mr. Zweig is terminated for any reason other than cause, MailKey shall pay in full the notes owed to either Mr. Zweig or Kramerica Capital Corporation and at least 75% of the earned bonus plan set forth by the directors.

Effective January 24, 2005, Mr. Zweig was also appointed to the Board of Directors of MailKey. Ivan Zweig has served as the Chief Executive Officer of IElement since March 2003. Mr. Zweig is also the Chief Executive Officer, director and sole shareholder of Kramerica, a personnel services corporation. Since December 1998, Mr. Zweig has served as the Chief Executive Officer and director of Integrated Communications Consultants Corp. ("ICCC"), a nationwide data carrier specializing in high speed Internet access and secure data transaction. ICCC provides IElement with resold telecom services and IElement pays ICCC approximately $100,000 on a monthly basis for such services. On October 1, 2004, ICCC filed for Chapter 11 bankruptcy protection in the United States Bankruptcy Court, Northern District of Texas, Dallas Division. On January 19, 2005, upon the consummation of the acquisition, IElement issued eight (8) promissory notes to, Kramerica, certain members of Mr. Zweig's immediate family and others in the aggregate amount of $376,956.16 (the "Notes") with no interest. Upon issuance, the Notes were payable in 36 monthly installments with the first payment commencing six months after the closing of the merger and were secured by substantially all of the assets of IElement. IElement did not make any payments on the Notes. On March 25, 2006 each of the Notes were cancelled and IElement issued new convertible promissory notes to the same individuals in the same principal amount of $376,956.16, again with no interest thereon. The first payment on each of the new convertible promissory notes was due in September 2006 with a total of 36 monthly installments through August 2009. The Lender has the right to convert all or a portion of the outstanding balance, at any time until the notes are paid in full, into IElement's common stock at a conversion price of $0.035 per share. Any past due balance on the old Notes was forgiven at the time of cancellation of the old Notes and issuance of the new convertible promissory notes. The new convertible promissory notes were secured by substantially all the assets of IElement, as were the original Notes. The aggregate of the Kramerica notes is $120,000 and was issued for services rendered prior to issuance. The $50,000 note was originally issued on June 1, 2004 for services prior to that date and was restated subsequent to the merger on January 19, 2005. The remaining $70,000 note was issued on January 19, 2005 for services rendered prior to that date. On October 2, 2006, all eight holders of the promissory notes to Mr. Zweig's immediate family extended the payment terms so that the first of the 36 monthly payments is now due on April 1, 2007 and the last is due on March 1, 2010. No payments have been made on any of the notes and no interest is currently accruing.

The Company's consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and have been presented on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

The Company received consent to amend the Articles of Incorporation to increase the number of shares of common stock authorized to be issued from 100,000,000 shares to 2,000,000,000 shares, and consented to the authorization of 200,000,000 shares of Blank Check Preferred Stock. There are no current plans to designate any Blank Check Preferred Stock.

On August 1, 2005, the Company filed an Information Statement in the definitive form on schedule 14C with the SEC to change its name from MailKey Corporation to IElement Corporation. Concurrent with this name change, the Company received a new stock trading symbol (IELM.OB) on the NASD Over-the-Counter Electronic Bulletin Board.

On August 8, 2005, Tim Dean-Smith and Susan Walton resigned their positions on the Board of Directors (the "Board") of the Company. Tim Dean-Smith also resigned from his position as Chief Financial Officer of the Company. The resignations of Mr. Dean-Smith and Ms. Walton were consistent with the expectations of the parties pursuant to the consummation of the merger between IElement and the Company on January 19, 2005, and do not arise from any disagreement on any matter relating to the Company's operations, policies or practices, nor regarding the general direction of the Company. Neither Mr. Dean-Smith nor Ms. Walton served on any subcommittees of the Board. Ivan Zweig, the current Chairman of the Board and Chief Executive Officer was appointed as the Chief Financial Officer of the Company until a new Chief Financial Officer is found.

In March 2006, Ivan Zweig, as the only Director, appointed Lance Stovall and Ken Willey to the Board of Directors until the next annual meeting, when all three Directors were up for re-election.

On December 6, 2006 the Board of Directors unanimously appointed Charles Carlson to the Board of Directors until the next annual meeting after the annual meeting scheduled for December 15, 2006.

On December 15, 2006, Ivan Zweig, Lance Stovall and Ken Willey were re-elected to the Board of Directors at the Company's annual meeting. Charles Carlson will also continue to serve on the Board of Directors until the next annual meeting but was not up for re-election at this time.

IELEMENT CORPORATION AND SUBSIDIARY
(Formerly MailKey Corporation)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE MONTHS ENDED DECEMBER 31, 2006 AND 2005
AND THE NINE MONTHS ENDED DECEMBER 31, 2006 AND 2005

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The condensed consolidated financial statements include the financial position and results of IElement. All significant inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments and other short-term investments with an initial maturity of three months or less to be cash or cash equivalents.

The Company maintains cash and cash equivalents with a financial institution which is insured by the Federal Deposit Insurance Corporation up to $100,000. At various times throughout the year the Company had amounts on deposit at the financial institution in excess of federally insured limits.

Revenue and Cost Recognition

The Company records its transactions under the accrual method of accounting whereby income is recognized when the services are provided rather than when billed or the fees are collected, and costs and expenses are recognized in the period they are incurred rather than paid for. In determining when to recognize revenue the Company relies on Staff Accounting Bulletin Topic 13. The Company uses four criteria in determining when revenue is realized or realizable and earned. First, the Company must have persuasive evidence of the existing of an arrangement. The Company utilizes written contracts with its customers to meet this criterion. Second, delivery must have occurred or services must have been rendered. The Company defers revenue from the date invoiced, usually 35-40 days before services are rendered, to the month services are deemed completely rendered, thereby satisfying this criterion. Third, the price must be fixed and determinable. The Company delivers invoices to every customer stating the exact amount due for services, thereby satisfying this criterion. Fourth, the company determines credibility of its customers and collectibility of its invoices by evaluating its ongoing history and relationship with each customer, the fact that each customer is dependant upon the Company to provide its telephone and internet services and, in many cases, the fact that the customer has a security or service deposit with the Company in the amount of one month's service charges. When the Company cannot determine that a particular customer is credible and a particular invoice is collectible, the company will not record this invoice as revenue until the payment is collected from that customer. Thus, the Company meets the fourth criterion that collectibility be reasonably assured.

Accounts Receivable

The Company factors 99% of its billings with an outside agency. The Company invoices its customers on the 28th of the month for services to be rendered approximately 35 days subsequent to the billing date. The Company receives 75% of the aggregate net face value of the assigned accounts at the time of placement with the factor.

Deferred Revenue

Deferred revenue consists of customers billed in advance of revenue being earned.

Provision for Bad Debt

Under SOP 01-6 "Accounting for Certain Entities (including Entities with Trade Receivables)", the Company has intent and belief that all amounts in accounts receivable are collectible. The Company has determined that based on their collections an allowance for doubtful accounts of $10,684 and $12,165 has been recorded at December 31, 2006 and 2005, respectively.

Bad debt expense for the three months ended December 31, 2006 and 2005 was $25,928 and $20,711, respectively, and $67,499 and $67,943 for the nine months ended December 31, 2006 and 2005, respectively.

Advertising Costs

The Company expenses the costs associated with advertising and marketing as incurred. Advertising and marketing expenses included in the statements of operations for the three months ended December 31, 2006 and 2005 were $78,573 and $2,445, respectively, and $82,357 and $6,034 for the nine months ended December 31, 2006 and 2005, respectively.

Income Taxes

The income tax benefit is computed on the pretax loss based on the current tax law. Deferred income taxes are recognized for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates. No benefit is reflected for the three months ended December 31, 2006 or 2005 or for the nine months ended December 31, 2006 or 2005.

Fair Value of Financial Instruments

The carrying amount reported on the balance sheet for cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value because of the immediate or short-term maturity of these financial instruments. The carrying amount reported for notes payable approximates fair value because, in general, the interest on the underlying instruments fluctuates with market rates.

Fixed Assets

Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Furniture and equipment	5 Years
Telecommunications equipment	5 Years

When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized. Deduction is made for retirements resulting from renewals or betterments.

(Loss) Per Share of Common Stock

Historical net (loss) per common share is computed using the weighted average number of common shares outstanding. Common stock equivalents were not included in the computation of diluted earnings per share when the Company reported a loss because to do so would be anti-dilutive for the periods presented.

The following is a reconciliation of the computation for basic and diluted EPS:

	Three Months Ended		Nine Months Ended	
	December 31, 2006 (Unaudited)	December 31, 2005 (Unaudited)	December 31, 2006 (Unaudited)	December 31, 2005 (Unaudited)
Net Loss	($577,781)	($328,262)	($1,873,405)	($864,286)
Weighted average common shares outstanding (Basic)	183,888,702	96,477,065	167,442,590	94,817,400

Weighted average common stock equivalents	-	-	-	-
Stock options	-	-	-	-
Warrants	-	-	-	-
Weighted average common shares outstanding (Diluted)	183,888,702	96,477,065	167,442,590	94,817,400

A total of 17,450,000 options were issued during the nine months ended December 31, 2006. A total of 49,173,281 options and warrants were outstanding as of December 31, 2006. Including the options and warrants outstanding for the three months ended December 31, 2006 or 2005 or the nine months ended December 31, 2006 or 2005 would have been anti-dilutive.

Stock-Based Compensation

Effective April 1, 2006, the Company adopted the provisions of Financial Accounting Standards Board Statement of Financial Accounting Standard ("SFAS") No. 123(R), "Share-Based Payments," which establishes the accounting for employee stock-based awards. Under the provisions of SFAS No.123(R), stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period of the grant). The Company adopted SFAS No. 123(R) using the modified prospective method and, as a result, periods prior to March 31, 2006 have not been restated. The Company recognized stock-based compensation for awards issued under the Company's stock option plans in other income/expenses included in the Condensed Consolidated Statement of Operations. Additionally, no modifications were made to outstanding stock options prior to the adoption of SFAS No. 123(R), and no cumulative adjustments were recorded in the Company's financial statements.

The Company measures compensation expense for its non-employee stock-based compensation under the Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) Issue No. 96-18, "*Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*".

The fair value of the option issued is used to measure the transaction, as this is more reliable than the fair value of the services received. The fair value is measured at the value of the Company's common stock on the date that the commitment for performance by the counterparty has been reached or the counterparty's performance is complete. The fair value of the equity instrument is charged directly to compensation expense and additional paid-in capital.

Stock-based compensation for the three months ended December 31, 2006 and 2005 was $44,840 and $17,497, respectively. Stock-based compensation for the nine months ended December 31, 2006 and 2005 was $178,734 and $236,750, respectively.

On August 29, 2006, the Company issued 17,100,000 stock options to its employees. The options have an exercise price of $0.01 and vest over 40 months.

On September 11, 2006, the Company issued 100,000 stock options to its employees. The options have an exercise price of $0.01 and vest over 48 months.

On December 6, 2006, the Company issued 250,000 stock options to its directors. The options have an exercise price of $0.01 and vest over 12 months.

Recent Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections." SFAS No. 154 replaces Accounting Principles Board ("APB") Opinion No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. APB No. 20 previously required that most voluntary changes in accounting principle be recognized by including the cumulative effect of changing to the new accounting principle in net income in the period of the change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 did not have a material impact on the Company's financial position or results of operations.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140." SFAS No. 155 resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets," and permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of the first fiscal year that begins after September 15, 2006. The Company is currently evaluating the effect the adoption of SFAS No. 155 will have on its financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140." SFAS No. 156 requires an entity to recognize a servicing asset or liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract under a transfer of the servicer's financial assets that meets the requirements for sale accounting, a transfer of the servicer's financial assets to a qualified special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale or trading securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates. Additionally, SFAS No. 156 requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, permits an entity to choose either the use of an amortization or fair value method for subsequent measurements, permits at initial adoption a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights and requires separate presentation of servicing assets and liabilities subsequently measured at fair value and additional disclosures for all separately recognized servicing assets and liabilities. SFAS No. 156 is effective for transactions entered into after the beginning of the first fiscal year that begins after September 15, 2006. The Company is currently evaluating the effect the adoption of SFAS No. 156 will have on its financial position or results of operations.

IELEMENT CORPORATION AND SUBSIDIARY
(Formerly MailKey Corporation)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE MONTHS ENDED DECEMBER 31, 2006 AND 2005
AND THE NINE MONTHS ENDED DECEMBER 31, 2006 AND 2005

NOTE 3- FIXED ASSETS

Property and equipment as of December 31, 2006 was as follows:

	December 31, 2006
Property and equipment	$1,537,835
Less: accumulated depreciation	(988,827)
Net book value	$549,008

There was $75,994 and $69,934 charged to operations for depreciation expense for the three months ended December 31, 2006 and 2005, respectively. There was $225,212 and $207,986 charged to operations for depreciation expense for the nine months ended December 31, 2006 and 2005, respectively.

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NOTE 4- NOTES PAYABLE

The Company had several notes payable on December 31, 2006. On January 19, 2005, upon the consummation of the acquisition, IElement issued eight (8) promissory notes to, Kramerica, certain members of Mr. Zweig's immediate family and others in the aggregate amount of $376,956 (the "Notes") with no interest. Upon issuance, the Notes were payable in 36 monthly installments with the first payment commencing six months after the closing of the merger and were secured by substantially all of the assets of IElement. IElement did not make any payments on the Notes. On March 25, 2006 each of the Notes were cancelled and IElement issued new convertible promissory notes to the same individuals in the same principal amount of $376,956, again with no interest hereon. The first payment on each of the new convertible promissory notes was due in September 2006 with a total of 36 monthly installments through August 2009. The Lender has the right to convert all or a portion of the outstanding balance, at any time until the notes are paid in full, into IElement's common stock at a conversion price of $0.035 per share. Any past due balance on the old Notes was forgiven at the time of cancellation of the old Notes and issuance of the new convertible promissory notes. The new convertible promissory notes are secured by substantially all the assets of IElement, as were the original Notes. The aggregate of the Kramerica notes is $120,000 and was issued for services rendered prior to issuance. The $50,000 note was originally issued on June 1, 2004 for services prior to that date and was restated subsequent to the merger on January 19, 2005. The remaining $70,000 note was issued on January 19, 2005 for services rendered prior to that date. On October 2, 2006, all eight holders of the promissory notes to Mr. Zweig's immediate family extended the payment terms so that the first of the 36 monthly payments is now due on April 1, 2007 and the last is due on March 1, 2010. No payments have been made on any of the notes and no interest is currently accruing.

The notes payable balances at December 31, 2006 were as follows:

		December 31, 2006
Total notes payable	$	698,441
Less: current maturities		279,698
Long-term notes payable	$	418,743

The amount of principal maturities of the notes payable for the next four years ending December 31 and in the aggregate is as follows:

2007	$	279,698
2008		130,284
2009		157,065
2010		131,394
	$	698,441

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NOTE 5- OPERATING LEASES

The Company leases office space under a lease commencing in June of 2005. The lease is payable on a month-to-month basis. Monthly payments under the current lease are $3,284. The Company also leased additional office space in Texas and California. The Company ceased leasing this additional space during the period ended December 31, 2004.

Rental payments charged to expense for the three months ended December 31, 2006 and 2005 were $7,790 and $9,852, respectively. Rental payments charged to expense for the nine months ended December 31, 2006 and 2005 were $27,494 and $32,020, respectively.

NOTE 6- STOCKHOLDERS' EQUITY (DEFICIT)

Common Stock

As of December 31, 2006, the Company has 2,000,000,000 shares of common stock authorized at a par value of $0.001 and 224,025,000 shares issued and outstanding.

The following details the stock transactions for the nine months ended December 31, 2006:

The Company issued 1,547,896 shares of common stock to retire accounts payable.

The Company issued 22,285,730 shares of common stock as payment for services rendered.

The Company issued 11,156,343 shares of common stock to convert notes payable.

The Company issued 30,000,000 shares of common stock in exchange for a note receivable.

Blank Check Preferred Stock

The company also has 200,000,000 shares of Blank Check Preferred Stock authorized. There are no current plans to issue any Blank Check Preferred Stock.

NOTE 7- PROVISION FOR INCOME TAXES

Deferred income taxes will be determined using the liability method for the temporary differences between the financial reporting basis and income tax basis of the Company's assets and liabilities. Deferred income taxes will be measured based on the tax rates expected to be in effect when the temporary differences are included in the Company's tax return. Deferred tax assets and liabilities are recognized based on anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases.

At December 31, 2006, deferred tax assets consist of the following:

Net deferred tax assets	$1,283,044
Less: valuation allowance	(1,283,044)
	$ -0-

At December 31, 2006, the Company had deficits accumulated in the approximate amount of $4,276,814, available to offset future taxable income through 2026. The Company established valuation allowances equal to the full amount of the deferred tax assets due to the uncertainty of the utilization of the operating losses in future periods.

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NOTE 8- GOING CONCERN

As shown in the accompanying condensed consolidated financial statements, the Company has sustained net operating losses for the three months ended December 31, 2006 and 2005 and the nine months ended December 31, 2006 and 2005. There is no guarantee that the Company will be able to raise enough capital or generate revenues to sustain its operations. This raises substantial doubt about the Company's ability to continue as a going concern.

The Company's future success is dependent upon its ability to achieve profitable operations and generate cash from operating activities, and upon additional financing.

There is no guarantee that the Company will be able to raise enough capital or generate revenues to sustain its operations. Management believes they can raise the appropriate funds needed to support their business plan and acquire an operating, cash flow positive company.

The condensed consolidated financial statements do not include any adjustments relating to the recoverability or classification of recorded assets and liabilities that might result should the Company be unable to continue as a going concern.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

THE FOLLOWING ANALYSIS OF THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION OF THE COMPANY SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS, INCLUDING THE NOTES THERETO OF THE COMPANY, CONTAINED ELSEWHERE IN THE FORM 10-QSB.

Forward-looking statements in this report may prove to be materially inaccurate. In addition to historical information, this report contains forward-looking information that involves risks and uncertainties. The words "may", "will", "expect", "anticipate", "continue", "estimate", "project", "intend" and similar expressions are intended to identify forward-looking statements. Actual results may differ materially from those included within the forward-looking statements as a result of factors, including the risks described above and factors described elsewhere in this report.

Company Overview

IElement is a facilities-based nationwide communications service provider that offers telecommunications services to small and medium sized businesses ("SMBs"). As a facilities-based provider, we own our own network equipment including telephone switches. In other words, we sell local and long distance telephone service and Internet access primarily via digital T-1 connections and tailor the particular service to the customer's needs by regulating bandwidth, number of telephone lines, and type of service. Our Layer 2 Private Network ("L2PN") service allows businesses with multiple locations to connect all of their locations securely without the use of firewalls or encryption devices and without routing traffic over the internet. In addition, we have developed, tested and deployed our Voice over Internet Protocol ("VoIP"s) service. We have a network presence in 18 major markets in the United States, including facilities in Los Angeles, Dallas, Chicago and smaller facilities in ten other cities.

In addition to the operations noted above, we began servicing a large customer base of wireless internet subscribers in December 2006. This service covers everything from service delivery and technical support to back office administration and resulted from a management contract with Sutioc Enterprises, Inc. on behalf of US Wireless Online, Inc. These customers are primarily located in Florida, Pennsylvania, Kentucky, Mississippi and Alabama.

Although we have a solid, steady revenue stream, characterized by our base of customers which are under long-term contracts and most of which have been our customers for several years, revenue attrition is a universal, unavoidable trend in the telecommunications industry. Competition between providers for services that many small and medium sized businesses see as commodities leads customers to change providers based largely on price. The resulting effect is detrimental to our business model in two ways. First, our customers leave us for other providers and second, when we do renew our customers' contracts, we do so at rates up to 20 percent lower than they had been paying.

To combat this revenue attrition, we intend to hire a new sales force in the coming months and we will earmark $500,000 in cash to be raised through our upcoming call of warrants for this purpose. This will allow us to pursue new customers that more than replace the revenue lost to attrition. This sales force will be based in Chicago, which is the location of our smallest customer base and where we have the most underutilized network capacity, and will allow us to turn a profit quicker than we could elsewhere, possibly within 6 months.

Our overall financial condition improved significantly with the completion of our private equity placement in January 2006 and the increased liquidity it brought. However, we do continue to use cash and at our current pace we would run out of cash this fiscal year if we were not able to successfully convert the warrants issued in the private placement, raise additional funds or acquire a cash flow positive company.

We could enhance our financial position by reducing and eliminating certain general and administrative expense items, deferring salaries or eliminating costly vendors. These spending cuts would return the company to the break-even point or result in a net income. Because doing so would halt our growth plans, we do not intend to make these cuts unless we are unable to continue pursuing our growth model.

We continue to incur operating losses because we have readied the company for rapid growth "out of the gate" as soon as we convert the private placement warrants. We have the necessary equipment, infrastructure, personnel, experience and processes to handle a much higher volume of customers. If we cut back on these expenses before we have a chance to utilize them we will save money in the short term but seriously hinder our ability to grow.

We believe that the money we expect to receive from investors exercising their warrants to purchase our stock will be sufficient not only to stabilize our current revenue, but to rapidly grow our customer base and increase our revenue, provide a positive cash flow from operations and start earning a net income on a regular basis. If we are able to successfully convert most of the warrants outstanding and set aside $500,000 specifically for a new sales force in Chicago, we believe we will be able to become a profitable company within 6 months of that successful conversion. If we are unable to successfully convert a majority of the warrants, we will be forced to seek other debt or equity funding or to cut expenses by laying off employees or discontinuing certain services provided by our vendors.

Market trends in our industry are shifting towards Voice over Internet Protocol (VoIP), and we have also developed our own VoIP product offering. VoIP has been gaining large scale acceptance as companies like Packet-8, Skype and Vonage continue to broadly advertise their services. These pioneering companies have paved the way for smaller, more agile companies like us by spending their time and money developing working VoIP platforms and then exerting significant effort to spread the word about VoIP, thereby leading to the large scale acceptance of which we are now in the midst.

We see an excellent opportunity as a business VoIP provider since few of the major VoIP providers are targeting businesses. Our barrier to entry into VoIP was minimal when you consider the potential return. Since our network consulting company, Obelix, had already done all necessary research and development, we were able to upgrade our network to provide VoIP for a one time cost of $79,000 in equipment, which we funded from the proceeds of our recent private equity placement. We may decide to upgrade our current VoIP platform to a more robust, full-featured version in the near future in order to better accommodate some of our planned service application offerings like Managed Microsoft Exchange, offsite disaster recovery and managed IT services.

We compete with both competitive local exchange carriers (CLECs) like ourselves, who lease certain access lines from incumbent local exchange carriers (ILECs), and the ILECs themselves. Some examples of our ILEC competitors are Verizon Communications and AT&T. Some examples of our CLEC competitors are XO Communications and CBeyond Communications. We also compete with internet service providers (ISPs), but since their product offerings are typically limited in comparison to ours, this competition has little effect on our operations or planning.

We provide our own in-house live technical support 24 hours a day, 365 days a year. Many of our customers know our employees by their first names and are much more comfortable working with a small, service-oriented company like IElement.

Our Plan of Operation

IElement is a facilities-based nationwide communications service provider that offers telecommunications services to small and medium sized businesses ("SMBs") including Voice over Internet Protocol (VoIP), broadband data, voice and wireless services, integrated T-1 lines and a Layer 2 Private Network (L2PN)/Wide Area Network (WAN) solution. IElement offers dedicated Internet access, customizable business solutions for voice, data and Internet, and secure communication channels between our customers' offices and their partners, vendors, customers and employees without the use of a firewall or costly encryption devices.

IElement has undertaken steps to present itself under the trade name IElement to its customer base and target market and will continue to take steps to notify, inform and promote the name of IElement. We now aim to grow the business of IElement and establish it as a profitable national added-value carrier.

On November 10, 2005, we announced our intention to enter into the Voice over Internet Protocol ("VoIP") market. The Company subsequently purchased the equipment necessary to begin providing VOIP services, identified a partner with VOIP expertise to assist in the planning and implementation, and successfully developed, tested and deployed its VoIP services. We began marketing VoIP services on May 1, 2006.

The costs related to further development of our VoIP product are limited to our potential purchase of a new platform that will handle much more capacity than we currently can handle. That platform could cost in excess of $100,000 but would allow us to expand both the scope and the volume of services we are currently able to offer.

We estimate the cost to enter the Chicago market with an active sales force to be approximately $500,000 from March 1, 2006 through December 31, 2007 before operations there become profitable. The $500,000 to start the sales force in Chicago covers all costs associated with acquiring a new office, staffing, training and managing a sales force with installation engineers, acquiring additional bandwidth or connections to accommodate new customers there, and paying commissions and agent fees. Our current offices and equipment will support the Dallas and Los Angeles service as well as the back office and network operations of the Chicago sales force with little or no additional expenditure. However, we will incur increased overall costs for additional marketing including telemarketing services. Our post-Chicago target markets are smaller cities in the Midwestern region that have yet to be identified.

We expect that a budgeted amount of approximately $750,000 in working capital shall be sufficient for 18 months of operations, including the expansion into the Chicago market.

In addition to adding a sales force in Chicago and marketing VoIP, our other main avenue towards revenue growth and profitability is to provide value-added or managed services and applications to our new and existing customers, Managed Microsoft Exchange, prepaid and postpaid cellular services, email and network security, residential and business wireless internet, Managed Blackberry services, data storage, offsite disaster recovery and managed IT services.

The development of these services will allow IElement to offer SMBs the access to large enterprise type applications with little or no software purchase, hardware investment, upgrade concerns or full-time administration of these services. These sell-through services will increase the Average Revenue Per Customer ("ARPC") as well as help improve customer retention.

As a value-added provider we intend to provide services that enhance our customers' ability to communicate along with basic internet access or telephone service.

We intend to:

-- Initially concentrate our resources on adding customers in the Dallas, Los Angeles and Chicago markets, while extending our sales reach to smaller as yet unidentified cities in the Midwest region of the United States.

-- Build out the necessary infrastructure to sell IElement broadband services (wireless or wireline) as well as resell voice services over the same T1 or wireless equivalent.

-- Upsell value-added managed services to our current and future customer base to raise our ARPC. We believe that existing infrastructure can serve multiple new markets as they are brought online in advance of the need for additional capital expenditures or additional software licenses. The cost associated with this goal is minimal and our efforts have already begun.

-- Seek acquisitions of wireless ISPs (WISPs) and other suitable telephony and/or data carriers in secondary and tertiary markets that can be layered onto our current network, including equipment and lines already owned or leased. Such acquisitions would enable greater economies of scale and operating efficiencies. We are continuously exploring potential acquisitions in this regard.

-- Begin aggressively marketing VOIP to our current and potential customers. We are currently working diligently to add a small VOIP customer base into which we can aggressively market our value-added services and applications. We are initially concentrating on adding customers in the Chicago, Dallas and Los Angeles markets, but particularly Chicago.

We anticipate that the number of people who we employ may increase substantially over the next 12 months as we continue to execute on our business plan.

The costs of implementing our business plan will be derived both from operating revenues and proceeds received from the exercising of warrants, sale of equity or issuance of debt.

Build-out of IElement's necessary infrastructure may include the purchase or leasing of new telephone switches or a VoIP platform that could cost in excess of $100,000.

RESULTS OF OPERATIONS

REVENUES

Revenues were $881,466 for the three months ended December 31, 2006 as compared to $1,119,772 for the three months ended December 31, 2005. The decrease was due to customer attrition resulting from the fact that we did not employ a dedicated sales force. We plan to hire a dedicated sales force this year.

Revenues were $2,841,873 for the nine months ended December 31, 2006 as compared to $3,487,000 for the nine months ended December 31, 2005. The decrease was due to customer attrition resulting from the fact that we did not employ a dedicated sales force. We plan to hire a dedicated sales force this year.

COST OF REVENUES

Cost of revenues excluding depreciation was $562,196 for the three months ended December 31, 2006 as compared to $689,185 for the three months ended December 31, 2005. Depreciation applicable to cost of revenues was $50,916 for the three months ended December 31, 2006 and $46,856 for the three months ended December 31, 2005. The lower cost of revenues for the three months ended December 31, 2006 was attributable to the fact that we had less revenue to support.

Cost of revenues excluding depreciation was $1,886,563 for the nine months ended December 31, 2006 as compared to $2,141,575 for the nine months ended December 31, 2005. Depreciation applicable to cost of revenues was $150,892 for the nine months ended December 31, 2006 and $139,351 for the nine months ended December 31, 2005. The lower cost of revenues for the nine months ended December 31, 2006 was attributable to the fact that we had less revenue to support.

OPERATING EXPENSES

Operating expenses including cost of revenues for the three months ended December 31, 2006 were $1,459,247 as compared to $1,448,034 for the three months ended December 31, 2005.

Operating expenses including cost of revenues for the nine months ended December 31, 2006 were $4,715,278 as compared to $4,351,286 for the nine months ended December 31, 2005.

The increase from the year earlier periods was due to significant consulting expenses related to the development of new services, entrance into new markets and other one-time items such as legal and accounting fees for filing an SB-2 registration statement.

GAIN (LOSS) FROM OPERATIONS

Loss from operations for the three months ended December 31, 2006 was $577,781 as compared to $328,262 for the three months ended December 31, 2005.

Loss from operations for the nine months ended December 31, 2006 was $1,873,405 as compared to $864,286 for the nine months ended December 31, 2005.

The increased loss from the year earlier periods was due to lower revenues resulting from the fact that we did not employ a dedicated sales force as well as significant consulting expenses related to the development of new services, entrance into new markets and other one-time items. We intend to hire a dedicated sales force this year and do not anticipate any significant consulting expenses.

Our net loss on an adjusted EBITDA basis for the three months ended December 31, 2006 was $234,508. Our management uses adjusted EBITDA as a financial measure to compare our gain or loss from operations to other small businesses in the telecommunications industry, most of which are not required to publicly report their financial results and are thus less likely to have GAAP numbers available for comparison. The calculation and disclosure of adjusted EBITDA affords both our management and that of other companies a measure to more accurately compare our financial results with those of non-public reporting companies within our industry. Adjusted EBITDA, as used in this section, excludes interest, income taxes (of which there were none), depreciation and non-cash items (services performed for stock and stock-based employee compensation in the form of stock options) from our net loss from operations and is meant only to supplement the financials in this periodic report that have been prepared using GAAP. Our presentation of adjusted EBITDA should in no way be considered more important, accurate or be displayed more prominently than our loss from operations. In reconciling adjusted EBITDA to our loss from operations, we provide the following table:

Adjusted EBITD	($282,257)
Stock Issued for Services	(145,480)
Stock-based Employee Compensation (Options)	(44,840)
Interest Expense	(6,284)
Receivable Factoring Fees (Interest Expense)	(19,926)
Depreciation	(75,994)
Gain (Loss) from Operations	($577,781)

INTEREST EXPENSE

Interest expense for the three months ended December 31, 2006 was $6,284, or $26,210 including factoring fees, as compared to $0, or $26,211 including factoring fees, for the three months ended December 31, 2005.

Interest expense for the nine months ended December 31, 2006 was $12,147, or $75,883 including factoring fees, as compared to $4,951, or $87,988 including factoring fees, for the nine months ended December 31, 2005.

The decrease in interest expense including factor fees for the periods ended December 31, 2006 from the periods ended December 31, 2005 were due to our lower sales and the corresponding inability to factor as many receivables.

Factor fees are very similar to interest expense. When we generate invoices on or near the end of each month, we factor them and receive 75% of the total dollar value of those invoices at that time. When our customers pay those invoices over the next month, the factor receives those customer payments directly. When the factor receives each payment, the 75% advance we received is settled, the factor keeps a 2.25% fee (in most cases) and releases the remaining 22.75% to us. In this way, factoring is essentially paying interest to the factor for advancing money to us, secured by our receivables, on a monthly basis.

NET INCOME (LOSS) APPLICABLE TO COMMON STOCK

Net loss applicable to common stock for the three months ended December 31, 2006 was $577,781 as compared to $328,262 for the three months ended December 31, 2005. Net loss per common share was $0.00 for the three months ended December 31, 2006 and $0.00 per share for the three months ended December 31, 2005.

Net loss applicable to common stock for the nine months ended December 31, 2006 was $1,873,405 as compared to $864,286 for the nine months ended December 31, 2005. Net loss per common share was $0.01 for the nine months ended December 31, 2006 and $0.01 per share for the nine months ended December 31, 2005.

The net loss for all periods can be attributed to the fact that we have not employed a dedicated sales force and therefore have not been able to generate enough new revenue to cover our costs, which are largely fixed. We intend to hire a dedicated sales force this year. Additionally, for both the three months and the nine months ended December 31, 2006 we had significant consulting expenses related to the development of new services, entrance into new markets and other one-time items such as legal and accounting fees for filing an SB-2 registration statement.

LIQUIDITY AND CAPITAL RESOURCES

Since our inception, we have funded our operations primarily through private sales of equity securities and the utilization of short-term convertible debt. As of December 31, 2006 we had a cash balance of $3,900 and a cash equivalents balance of $0.

In order to facilitate working cash flow, we factor approximately 99% of accounts receivables for customer billing with an outside agency, thereby receiving 75% of the aggregate net face value of the assigned accounts at the time of placement with the factor. We do not otherwise maintain a line of credit or term loan with any commercial bank or other financial institution, though we do have one corporate credit card with a credit limit of $50,000. To date, our capital needs have been principally met through the receipt of proceeds from factoring customer receivables and the sale of equity and debt securities.

In January 2006 we closed a private placement offering for an aggregate sale price of $1,579,375, of which up to 10% is subject to deduction for fees in connection with the private placement, and warrants for the purchase of an aggregate total of 22,562,500 shares at a strike price of $.10 per share. The proceeds of the private placement offering improved our cash balance and, if the majority of the warrants are exercised, IElement will receive up to an additional $2,256,250, which would be more than sufficient to satisfy our cash needs for our current operations as well as fund our planned sales expansion to the Chicago market. In addition, if only half of the warrants are exercised, we will be able to comfortably sustain our current operations.

In the event that none of the warrants are exercised, or only a nominal number of the warrants are exercised, we will require additional funds, above our operating revenues, to sustain operations and grow the business, including expanding our sales presence to the Chicago market. In this event, we plan to seek additional capital in the form of new private equity placements, short term loans or both. In the event that we seek additional capital through the sale of stock, there will be a dilutive impact on our currently outstanding common stock.

As of December 31, 2006, our gross accounts receivable totaled $482,075. We have set aside an allowance of $10,684 against that balance for uncollectible accounts. The net amount we expect to collect is $471,391. As a telecommunications provider, we bill for our services up front and therefore have significant leverage to collect on our Accounts Receivable because, with proper dunning, we can discontinue our customers' telephone and internet services if they do not pay their bills.

On December 27, 2006 we received a promissory note in the amount of $900,000 and accruing eight percent (8%) interest annually from Sutioc Enterprises, Inc. in exchange for 30,000,000 shares of our common stock. We will receive interest payments in the amount of $6,000 per month starting in February 2007 and ending in January 2009, then interest and principle payments in the amount of $16,000 per month starting in February 2009 and ending in January 2011. In January 2011 the note matures and the balance of $497,942 is due at that time.

As of December 31, 2006 we had total notes payable outstanding in the aggregate principal amount of $688,441 owed to 16 note holders. Accrued interest on those notes totaled $10,046. As of December 31, 2006 we were current in our obligations to repay 13 of the 16 notes and late, but not in default, on the remaining three.

Only the six notes issued in or subsequent to June 2006 are interest bearing. The following is a more detailed discussion of the notes.

On January 19, 2005, IElement issued eight promissory notes to, Kramerica, certain members of Mr. Zweig's immediate family and others in the aggregate amount of $376,956.16 (the "Notes") with no interest. In particular, the Notes are payable to Heather Walther ($20,000), Kramerica, Inc. (aggregate of $120,000), Mary Francis Strait Trust ($55,611.15), Peter Walther ($30,000), Richard Zweig ($20,000), Richard Zweig IRA ($27,500) and Strait Grandchildren Trust ($103,845.01). Upon issuance, the Notes were payable in 36 monthly installments with the first payment commencing six months after the closing of the merger and were secured by substantially all of the assets of IElement. IElement did not make any payments on the Notes.

On March 25, 2006 each of the eight Notes were cancelled and IElement issued new convertible promissory notes to the same individuals in the same principal amount of $376,956.16, again with no interest thereon. On October 12, 2006 each of these note holders agreed to extend the terms of their Notes so that the first payment is due on April 1, 2007 with a total of 36 monthly installments through March 2010. The Lender has the right to convert all or a portion of the outstanding balance, at any time until the Notes are paid in full, into IElement's common stock at a conversion price of $0.035 per share. Any past due balance on the old Notes was forgiven at the time of cancellation of the old Notes and issuance of the new convertible promissory notes. The new convertible promissory notes are secured by substantially all the assets of IElement as were the original Notes.

The issuance of new convertible promissory notes on March 25, 2006 in exchange for the previous promissory notes allowed us to extend the first payment date on all eight of these Notes from February 2006 until September 2006 in exchange for the added conversion feature. The eight note holders are able to collectively convert their notes into 10,770,176 shares of our common stock at a price of $0.035 per share. This could have a dilutive impact on our outstanding common stock if the market price of our common stock increases to more than $0.035 per share. If all of these notes are converted, the resulting issuance of 10,770,176 shares of our common stock would represent less than five percent (5%) of our then outstanding shares and we would be receiving more than the market value for such shares based on the current market price, making the conversion anti-dilutive.

On August 8, 2005, IElement issued four promissory Notes in the aggregate principal amount of $183,097 to Timothy Dean Smith ($53,930), Susan Walton ($30,000), Jeremy Dean Smith ($54,603) and Dolphin Capital ($44,564), with no interest. Upon issuance the notes were payable in 36 monthly installments with the first payment due in February, 2006.

On March 25, 2006 each of these four Notes were cancelled and IElement issued new convertible promissory Notes to the same individuals in the same principal amount of $183,097, again with no interest thereon. The first payment on each of the new convertible promissory Notes was due in September 2006 with a total of 36 monthly installments through August 2009.

The Lender had the right to convert all or a portion of the outstanding balance, at any time until the notes were paid in full, into IElement's common stock at a conversion price of $0.035 per share. Any past due balance on the old Notes was forgiven at the time of cancellation of the old Notes and issuance of the new convertible promissory notes. On or about October 12, 2006 all four of these Notes were converted into shares of our common stock and the shares were issued in November 2006. In particular, Tim Dean-Smith, Dolphin Capital, Jeremy Dean-Smith and Susan Walton converted an aggregate indebtedness of $183,097 into shares of common stock at a conversion price of $0.035 per share.

Two of the remaining Notes are held by Duane Morris ($34,631.29 as of December 31, 2006) and Palladian ($30,000 as of , 2006). The Duane Morris note was issued in exchange for a settlement of disputed attorneys fees on August 16, 2005 and was originally agreed to be paid in nine monthly installments beginning on September 30, 2005 and ending May 30, 2006. As of December 31, 2006 we are past due on our payments on the Duane Morris Note, but intend to pay $2,500 per month. The Palladian Note was issued on August 29, 2005 and was being paid in fourteen monthly installments beginning September 5, 2005 and ending October 28, 2006. As of December 31, 2006, we are past due on the Palladian Note and intend to resume $2,500 monthly payments.

We issued two new Notes during the three months ended June 30, 2006. One, in the amount of $100,000, was issued on June 8, 2006 to Rhino Limited and bears a ten percent interest rate. It matures when we secure funding from exercise of outstanding warrants, expected this fiscal year. The other new Note was issued on June 19, 2006 to Veronica Kristi Prenn. It bears a ten percent interest rate and matured on December 19, 2006, but as of February 14, 2007 we had not made a payment. We intend to renegotiate the terms of this Note.

We issued four new notes during the three months ended September 30, 2006, to Walton Hansen in the amount of $24,808 on August 4, 2006, to Kramerica for $8,200 on August 21, 2006, to Kramerica for $25,000 on August 24, 2006 and to William Goatley for $60,000 on September 5, 2006. All four of these notes bear interest at a rate of ten percent annually and mature six months from the date they were issued.

In October 2006 we retired the $8,200 Kramerica note by paying the principle and interest balance totaling $8,290.55.

We issued five new notes during the three months ended December 31, 2006, to Tim Dean-Smith in the amount of $116,000 on October 3, 2006, to Kramerica in the amount of $17,000 on November 8, 2006, to Barry Brault in the amount of $120,000 on November 14, 2006, to Stonegate Ventures, Inc. in the amount of $52,000 on November 29, 2006, and to Yock Investments, Inc. in the amount of $52,000 on November 29, 2006. All five of the Notes bare interest at a rate of ten percent annually and mature six months from the date they were issued.

On December 29, 2006 we retired four Notes payable, to Stonegate Ventures, Inc. in the amount of $52,000, Yock Investments, Inc. in the amount of $52,000, Barry Brault in the amount of $120,000 and Tim Dean-Smith in the amount of $116,000 by converting them to common shares of our stock. In each case, the shares of common stock had previously been issued as payment for consulting services, but the consulting services rendered did not meet our expectations. Each of the note holders agreed to forgive the balance of their notes in exchange for the company allowing them to keep the stock previously issued. Yock and Stonegate's stock was issued as payment for consulting services on September 29, 2006, Tim Dean-Smith's stock was issued as payment for consulting services on November 14, 2006 and Barry Brault's stock was issued as payment for consulting services on December 15, 2006.

Our total debt servicing requirements on the 16 outstanding promissory Notes over the next 12 months is approximately $279,698. In particular, beginning in April 2007, we will begin debt service on the remaining 8 of the 12 convertible promissory notes issued March 25, 2006 in the monthly amount of $10,471. In addition, within the next twelve months we expect to complete payments on the remaining balances owed to Duane Morris and Palladian, which is $64,631.29 as of December 31, 2006, and also repay the $246,808 in Notes issued over the nine months ended December 31, 2006 and still outstanding.

Although cash flow from current business operations alone would not likely be sufficient to satisfy our current debt obligations, we intend to satisfy those obligations through a combination of the following. First, we are trying to generate positive cash flows from current business operations. Second, we are actively seeking to acquire businesses with positive cash flow. Third, the proceeds from the exercise of the warrants would alleviate or eliminate much of our debt. Fourth, renegotiating the terms of the debt obligations, in particular the debt obligations to Mr. Zweig and his family, has generally been fairly easy and inexpensive. Finally, we would not be required to make cash payments on those debt obligations which are converted to stock. Half of the 16 remaining Notes may be converted at $.035 per share.

On February 14, 2006 we settled the breach of contract litigation against Communications Plus, Inc., a California company d/b/a Global Communications, ("Global") for $27,000 payable to Global Communications in periodic payments beginning February 14, 2006 and ending December 1, 2006. The final payment under this settlement was made on December 1, 2006.

On April 19, 2005 KK Solutions, Inc., a California corporation d/b/a Three 18, Inc. ("KK"), filed a complaint against us and CEO Ivan Zweig, individually, in the Superior Court of the State of California, County of Los Angeles, alleging breach of contract pursuant to a dispute regarding sales commissions due to KK. On May 2, 2006 we settled the litigation for a total settlement amount of $26,500, which has been paid in full. The case was dismissed with prejudice on July 11, 2006.

On December 27, 2006 we issued 30,000,000 shares of our common stock to Sutioc Enterprises, Inc. in exchange for a promissory note in the amount of $900,000. On the same date we entered into management agreements with both Sutioc Enterprises, Inc. and US Wireless Online, Inc. In order to facilitate these transactions and secure our interest in both the management contracts and the promissory note, we entered into a material contingent liability that does not appear on our condensed consolidated balance sheet.

This contingent liability is in the form of a guarantee granted to Richard Williamson, former owner of US Wireless Online's subsidiary, DHR Technologies. On December 27, 2006 we guaranteed that US Wireless Online will repay promissory notes to Mr. Williamson in the amounts of $150,000 and $141,179. This guarantee is secured by substantially all of our assets and will only effect us in the event of a US Wireless Online default. While we believe that default is unlikely since we are now managing the daily operations of US Wireless Online, US Wireless Online has a history of losses and negative cash flow and may be forced to default.

On January 10, 2007 we entered into a guarantee agreement whereby we guarantee US Wireless Online, Inc.'s line of credit for factoring receivables to Rockland Credit Finance, LLC. Under the agreement, should US Wireless Online be unable to pay down its line of credit with Rockland Credit Finance, IElement would be required to do so. The agreement is secured by substantially all of the assets of IElement.

We believe that default is unlikely because it would require a significant number of US Wireless Online's customers to default.

IElement is not aware of any other undisclosed actual or contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2006, we did not have any relationships with unconsolidated entities or financial partners, such as entities often referred to as structured finance or special purpose entities, that had been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we were engaged in such relationships.

On December 27, 2006 we issued 30,000,000 shares of our common stock to Sutioc Enterprises, Inc. in exchange for a promissory note in the amount of $900,000. On the same date we entered into management agreements with both Sutioc Enterprises, Inc. and US Wireless Online, Inc. In order to facilitate these transactions and secure our interest in both the management contracts and the promissory note, we entered into a material contingent liability that does not appear on our condensed consolidated balance sheet.

This contingent liability is in the form of a guarantee granted to Richard Williamson, former owner of US Wireless Online's subsidiary, DHR Technologies. On December 27, 2006 we guaranteed that US Wireless Online will repay promissory notes to Mr. Williamson in the amounts of $150,000 and $141,179. This guarantee is secured by substantially all of our assets and will only effect us in the event of a US Wireless Online default. While we believe that default is unlikely since we are now managing the daily operations of US Wireless Online, US Wireless Online has a history of losses and negative cash flow and may be forced to default.

As of February 14, 2007 the combined remaining balance on the two notes was $281,179.

On January 10, 2007 we entered into a guarantee agreement whereby we guarantee US Wireless Online, Inc.'s line of credit for factoring receivables to Rockland Credit Finance, LLC. Under the agreement, should US Wireless Online be unable to pay down its line of credit with Rockland Credit Finance, IElement would be required to do so. The agreement is secured by substantially all of the assets of IElement.

We believe that default is unlikely because it would require a significant number of US Wireless Online's customers to default.

RECENT DEVELOPMENTS

NONE.

FACTORS THAT MAY AFFECT FUTURE RESULTS

Generally, the Voice over Internet Protocol (VoIP) and internet based communications solutions industry is highly competitive and requires constant investment in research and development in order to keep pace with technology and competitors' products. Our success depends upon our ability to enter markets and establish a base level of customers sufficient to cover the costs of opening and maintaining a market while seeking to expand both our customer base and our product base. If we are unable to compete effectively or to obtain additional financing to fund future research and development and deployment expenditures, it would have a materially adverse effect on our business operations and would negatively affect our ability to effectively market and develop existing and future products.

CRITICAL ACCOUNTING POLICY AND ESTIMATES

Our Management's Discussion and Analysis of Financial Condition and Results of Operations section discusses our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Public Company Accounting Oversight Board. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition, accrued expenses, financing operations, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. The most significant accounting estimates inherent in the preparation of our financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources. These accounting policies are described at relevant sections in this discussion and analysis and in the condensed consolidated financial statements included in this quarterly report.

ITEM 3. CONTROLS AND PROCEDURES

On July 14, 2006 our auditors identified a material weakness in our internal controls and procedures that resulted in the misstatement of our financial results. This material weakness began in March of 2003 and was the result of an ineffective segregation of duties and inadequate monitoring over financial reporting. One person, our controller, performed all of the significant accounting tasks, which impacted our ability to accurately report the recapitalization of ICCC in March 2003. Upon review of this transaction on July 14, 2006, a restatement was filed to correct the reporting of this transaction by removing those adjustments related to fair value and goodwill.

Since the material weakness originated in March 2003, we have hired two additional accountants to segregate the duties of the accounting staff and named a CFO, Ivan Zweig, who now monitors all financial reporting. In addition, we have since implemented a policy to have the full Board of Directors review both our quarterly and annual financial statements before filing.

Our internal accounting team now has both the personnel and the experience to recognize and record significant transactions according to GAAP and we have implemented a full review of all financial information by our Board of Directors as well as certification by our CFO. Management and the Board of Directors believe that the above remedies remediate this material weakness.

The term “disclosure controls and procedures” is defined in Rules 13(a)-15e and 15(d) - 15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act). Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2006. They have concluded that, as of September 30, 2006 that our disclosures were effective to ensure that:

(1) That information required to be disclosed by the Company in reports that it files or submits under the act is recorded, processed, summarized and reported, within the time periods specified in the Commissions' rules and forms, and

(2) Controls and procedures are designed by the Company to ensure that information required to be disclosed by IElement Corporation and its subsidiary, IElement Inc., in the reports it files or submits under the Act is accumulated and communicated to the issuer's management including the Chief Executive Officer and the Chief Financial Officer or persons performing similar functions, as appropriate to allow timely decisions regarding financial disclosure.

This term refers to the controls and procedures of a Company that are designed to ensure that information required to be disclosed by a Company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within the required time periods. Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report. They have concluded that, as of September 30, 2006 our disclosure and procedures were effective in ensuring that required information will be disclosed on a timely basis in our reports filed under the exchange act.

There have been no changes in our internal controls over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-QSB that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

On April 19, 2005 KK Solutions, Inc., a California corporation d/b/a/ Three 18, Inc. ("KK"), filed a complaint against the Company and its CEO, Ivan Zweig, individually, in the Superior Court of the State of California, County of Los Angeles, alleging breach of contract pursuant to a dispute regarding sales commissions due to KK. On May 2, 2006 we settled the litigation for a total settlement amount of $26,500 which has been paid in full. The case was dismissed with prejudice on July 11, 2006.

On April 26, 2005 Communications Plus, Inc., a California company d/b/a Global Communications, ("Global"), filed a complaint against the Company and its CEO, Ivan Zweig, individually, in the Superior Court of the State of California, County of Los Angeles, alleging breach of contract pursuant to a dispute regarding sales commissions due to Global. Global sought damages in the amount of $50,000 plus interest. On February 14, 2006 the Company settled the matter for $27,000 payable to Global Communications in periodic payments beginning February 14, 2006 and ending December 1, 2006. The last payment under this settlement was made on December 1, 2006.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

We did not receive cash for any equity securities during the three months ended December 31, 2006. The following details our unregistered equity transactions during the three months ended December 31, 2006 and through the date of this Report:

On January 22, 2007 we issued 1,500,000 shares of our common stock at $0.026 per share to Doyle Capital for a total value of $39,000 to pay for consulting services rendered. The shares were issued in reliance on Section 4(2) and/or Section 3(9) of the Securities Act of 1933 and contain a restrictive legend in accordance with Rule 144.

On December 27, 2006 we issued 30,000,000 shares of our common stock at $0.03 per share to Sutioc Enterprises for a total value of $900,000 in exchange for a promissory note in the amount of $900,000. The shares were issued in reliance on Section 4(2) and/or Section 3(9) of the Securities Act of 1933 and contain a restrictive legend in accordance with Rule 144.

On December 15, 2006 we issued 5,000,000 shares of our common stock at $0.04 per share to Barry Brault for a total value of $200,000 to pay for consulting services to be rendered. The shares were issued in reliance on Section 4 (2) and/or Section 3(9) of the Securities Act of 1933 and contain a restrictive legend in accordance with Rule 144.

On December 8, 2006 we issued 200,000 shares of our common stock at $0.037 per share to William Jordan for a total value of $7,400 to pay for consulting services rendered. The shares were issued in reliance on Section 4(2) and/or Section 3(9) of the Securities Act of 1933 and contain a restrictive legend in accordance with Rule 144.

On November 27, 2006 we issued 600,000 shares of our common stock at $0.03 per share to Park Avenue Consulting for a total value of $18,000 to pay for advertising and marketing services rendered. The shares were issued in reliance on Section 4(2) and/or Section 3(9) of the Securities Act of 1933 and contain a restrictive legend in accordance with Rule 144.

On November 17, 2006 we issued 750,000 shares of our common stock at $0.028 per share to Equities Global

Communications for a total value of $21,000 to pay an accounts payable balance in the amount of $21,000. The shares were issued in reliance on Section 4(2) and/or Section 3(9) of the Securities Act of 1933 and contain a restrictive legend in accordance with Rule 144.

On October 20, 2006 we issued 3,250,000 shares of our common stock at $0.04 per share to Tim Dean-Smith for a total value of $130,000 to pay for consulting services to be rendered. The shares were issued in reliance on Section 4 (2) and/or Section 3(9) of the Securities Act of 1933 and contain a restrictive legend in accordance with Rule 144.

On October 12, 2006 we agreed to issue 857,143 shares of our common stock to Susan Walton in exchange for the release of indebtedness in the amount of $30,000. The indebtedness was converted to shares of common stock at a per share price of $0.035. The shares were issued on November 13, 2006. The shares were issued in reliance on Section 4(2) and/or Section 3(9) of the Securities Act of 1933 and contain a restrictive legend in accordance with Rule 144.

On October 12, 2006 we agreed to issue 1,540,857 shares of our common stock to Tim Dean-Smith in exchange for the release of indebtedness in the amount of $53,930. The indebtedness was converted to shares of common stock at a per share price of $0.035. The shares were issued on November 13, 2006. The shares were issued in reliance on Section 4(2) and/or Section 3(9) of the Securities Act of 1933 and contain a restrictive legend in accordance with Rule 144.

On October 12, 2006 we agreed to issue 1,273,257 shares of our common stock to Dolphin Capital in exchange for the release of indebtedness in the amount of $44,564. The indebtedness was converted to shares of common stock at a per share price of $0.035. The shares were issued on November 13, 2006. The shares were issued in reliance on Section 4(2) and/or Section 3(9) of the Securities Act of 1933 and contain a restrictive legend in accordance with Rule 144.

On October 12, 2006 we agreed to issue 1,560,086 shares of our common stock to Jeremy Dean-Smith in exchange for the release of indebtedness in the amount of $54,603. The indebtedness was converted to shares of common stock at a per share price of $0.035. The shares were issued on November 13, 2006. The shares were issued in reliance on Section 4(2) and/or Section 3(9) of the Securities Act of 1933 and contain a restrictive legend in accordance with Rule 144.

ITEM 3. DEFAULTS ON SENIOR SECURITIES.

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

We did not submit any matters to a vote of our stockholders, through the solicitation of proxies or otherwise, during the second quarter of fiscal 2007.

ITEM 5. OTHER INFORMATION.

On February 1, 2006 we filed with the SEC a Registration Statement on Form SB-2 to register for resale the securities purchased by various investors. On September 1, 2006, we filed the seventh amendment to this Registration Statement and on September 13, 2006 the SEC declared it effective.

On September 25, 2006 we filed with the SEC a Registration Statement on Form S-8 which became effective immediately. In conjunction with this Registration, we also filed our 2006 Stock Plan, which was subject to and received shareholder approval at our annual meeting held on December 15, 2006.

ITEM 6. EXHIBITS

(a) The following documents are filed as exhibits to this report.

EXHIBIT INDEX

Exhibit No.	Description

2.1 Agreement and Plan of Merger, dated February 20, 2004, by and among Global Diversified Acquisition Corp., G.D. Acquisition Corp., MK Secure Solutions Limited and Westvale Consulting Limited.*

2.2 First Amendment to Agreement and Plan of Merger, dated March 23, 2004, by and among Global Diversified Acquisition Corp., G.D. Acquisition Corp., MK Secure Solutions Limited and Westvale Consulting Limited. *

2.3 Agreement and Plan of Merger, dated November 9, 2004, by and among Mailkey Corporation, MailKey Acquisition Corp., I-Element, Inc. and Ivan Zweig. *

2.4 First Amendment and Waiver to Agreement and Plan of Merger, dated December 30, 2004, by and among MailKey Corporation, MailKey Acquisition Corp., I-Element, Inc. and IvanZweig. *

3(i).1 Articles of Incorporation. *

3(i).2 Amendment to Articles of Incorporation*

3(i).3 Amendment to Articles of Incorporation*

3(i).4 Amendment to Articles of Incorporation*

3(i).5 Certificate of Correction*

3(i).6 Amended Articles of Incorporation of MailKey Corporation dated August 1, 2005. *

3(ii) Restated By-Laws of IElement*

3(ii).1 Restated By-laws of IElement***

4.1 2006 Stock Plan**

10.1 Employment Agreement with Ivan Zweig in the form of Binding Letter of Intent dated January 18, 2005*

10.2 Form of Warrant*

10.3 Form of Amended and Restated Convertible Secured Promissory Notes dated March 25, 2006*

10.4 Integrated Communications Consultants Corporation Master Services Agreement by and between Integrated Communications Consultants Corporation and IElement, Inc. dated April 30, 2003. *

10.5 Lease Agreement between IElement, Inc. and 13714 Gamma, Ltd dated June 9, 2005. *

10.6 Form of Vista Capital warrant*

10.7 Rhino Limited note dated June 8, 2006******

10.8 Veronica Kristi Prenn note dated June 19, 2006******

10.9 Walton Hansen note dated August 4, 2006******

10.10 William Goatley note dated September 5, 2006******

10.11 Restated Bylaws of IElement dated December 6, 2006***

10.12 Management Services and Vendor Agreement****

10.13 Security Agreement****

10.14 Secured Promissory Note****

10.15 Secured Promissory Note****

10.16 Factor Assignment Agreement*****

10.17 Guarantee Agreement*****

10.18 Guarantee Agreement*****

31.1 Certification pursuant to Sarbanes-Oxley Sec. 302

32.1 Certification pursuant to 18 U.S.C. Sect. 1350

* Previously filed with Amendment No. 7 to Registration Statement on Form SB-2 filed on September 1, 2006.

**Previously filed with the Form S-8 filed on September 25, 2006.

***Previously filed with the Form S-8 filed on December 12, 2006.

****Previously filed with the Form S-8 filed on January 4, 2007.

*****Previously filed with the Form S-8 filed on January 29, 2007.

******Previously filed with the Form 10-Q on November 20, 2006.

(b) Reports on Form 8-K.

On October 17, 2006 we filed a report on Form 8-K attaching a press release.

On December 8, 2006 we filed a report on Form 8-K regarding our amended By-Laws and appointment of Charles Carlson to our board of directors.

On January 4, 2007 we filed a report on Form 8-K regarding our transactions with Sutioc Enterprises, Inc. and US Wireless Online, Inc.

On January 29, 2007 we filed a report on Form 8-K regarding our entry into a contingent liability to Rockland Credit Finance, LLC on behalf of US Wireless Online, Inc.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

IELEMENT CORPORATION

Date: February 14, 2007

IVAN ZWEIG
/s/ Ivan Zweig

Ivan Zweig,
Chairman,
Chief Executive Officer,
Chief Financial Officer